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OUTLOOK

FOR THE ECONOMY AND REAL ESTATE

By DR. JACK CARLSON
Executive Vice President & Chief Economist
NATIONAL ASSOCIATION OF REALTORS®
777 14th Street, N.W.
Washington, D.C. 20005

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U.S. Economic and Real Estate Outlook

Aggregate Economy

The recovery is currently proceeding at a robust pace but a trend of decelerating growth is now well established. Real or inflation adjusted Gross National Product (GNP) should increase at an annualized rate of 6 percent during the fourth quarter. The growth rate for the third quarter has been revised upward to 7.9 percent, down almost 2 full percentage points from the second quarter. The overall growth rate should continue to decline through 1984, falling to the 2 percent level by the fourth quarter. The drag of high interest rates will cause a much steeper decline in growth rates than during previous recoveries.

The current strong growth rate is driven by consumer spending and business inventory accumulation. Growth in consumer spending on durables, particularly automobiles, fell to 5.7 percent during the third quarter of this year but should recover to 14 percent or more during the fourth quarter due to the introduction of 1984 car models. Domestic car sales should reach 6.9 million units for 1983, up nearly 20 percent over 1982. The import share of the U.S. market is expected to decline from 28 percent in 1982 to 25 percent for 1983. Automobile sales are doing well now despite relatively high real interest rates because consumers delayed upgrading their vehicles during the prolonged recession.

At annualized rates, inventory accumulation was a hefty $26 billion during the third quarter and is expected to rise to $36 billion during the fourth quarter. Inventory accumulation is currently contributing nearly half of the growth in GNP.

While domestic automobile sales may rise to 8 million next year, overall growth in consumption expenditures and inventory accumulation will slow during 1984--the typical path as the recovery enters its second year.

The slower growth during 1984 will reflect only modest growth in business investment. Because of high real interest rates and relatively low levels of capacity utilization, businesses have less incentive to expand or modernize. As a result, growth in investment in nonresidential structures, which finally turned positive during the third quarter, will be weak in 1984 and 1985. Business investment in new equipment will be somewhat stronger as firms modernize existing equipment, but this increase will not be sufficient to boost overall economic growth. Businessmen fear the economy will slip back into recession in late 1985 or 1986 unless decisive action is taken to reduce the federal deficit.

High interest rates have exhausted the growth in residential investment. In fact, growth in residential investment could be negative during the fourth quarter of 1983 and could be only modest during 1984.

Exports recovered during the third quarter, but growth should be modest in both 1984 and 1985. The Canadian, U.K. and German economies have begun to recover, stimulating demand for U.S. products and services. But the overvalued U.S. dollar, another consequence of the huge federal deficits, is acting as a drag on export growth.

New job creation was at its highest point for this recovery during the third quarter with total employment increasing by 1.7 million. The unemployment rate fell from 9.3 percent in September to 8.8 percent in October. Employment growth should slow to 1.2 million jobs during the fourth quarter and is expected to decline to 0.6 million jobs in the fourth quarter of 1984 at which time the unemployment rate should be just above 8 percent. In 1985 the much slower growing economy may result in a rise in the unemployment rate.

The anticipated rise in inflation appears to have gotten underway. After rising at an annual rate of 4.9 percent in both July and August, the Consumer Price Index (CPI) rose a an annual rate of 6.2 percent in September. The rise in the CPI in September was due primarily to increases in prices of new and used cars, food, and housing.

For all of 1983 the CPI should rise just 3.3 percent, the lowest annual increase since 1972. In addition to the fall in oil prices during the first part of the year, this very low rate of inflation is attributable to a much slower rate of increase in per unit labor costs. Wage concessions negotiated during the 1980-1982 recession have held down labor costs, with gains in productivity outstripping increases in compensation per manhour during the first half of the year.

However, as the economy achieves a higher overall level of utilization, labor costs should begin to rise faster than productivity, leading to larger increases in the prices of products and services. Inflation should rise to 6 percent in 1984 and 7 percent in 1985.

Monetary Policy and Interest Rates

Interest rates continued to ease modestly during October due to relatively weak credit demand by both the private sector and the federal government. Long-term interest rates such as mortgage rates are now about 1/4 percentage point below August levels while short-term interest rates such as the rate on 3-month Treasury bills are 1/2 to 3/4 percentage point lower.

The credit needs of the federal government were temporarily down in October as the Treasury ended FY83 with larger than anticipated cash balances. Consumer installment credit demand is holding fairly constant while commercial and industrial loan demand remains very weak. Businesses appear to be very leary of taking on additional long-term debt, financing inventory accumulation and other short-term debt out of improved cash flow.

Interest rates in general would be modestly lower at this time were it not for overly restrictive monetary policy. The nation's money supply is growing very slowly, with both M1 and M2 near the lower end of their respective target ranges.

The Federal Reserve Board (FED) is expected to maintain its current policy stance through the end of this year and perhaps for a few months into 1984. Interest rates should stay at current levels over this period, perhaps edging slightly higher.

Table 1

Compound Annual Rates of Growth
of Alternative Measures of the Money Supply

	M1	M2	M3
1983			
July	9.3%	6.6%	5.7%
August	2.8%	6.2%	8.7%
September	0.9%	4.7%	7.4%
October	2.0%	N.A.	N.A.
FED Targets	5-9% a/	7-10% a/	6.5-9.5% b/
Forecast	6.8%	7.6%	8.5%

a/For the period from 83:2 to 83:4.

b/For the period from 82:4 to 83:4.

However, during 1984 the FED is expected to adopt a more accommodative stance as often happens in an election year. The growth of the money supply could be at the upper end of the target ranges. Long-term rates should drift lower as a result. The mortgage commitment rate should drop to 13 percent during the third and fourth quarters of 1984. Short-term rates should remain at or near current levels through mid-year since Treasury borrowing is expected to be particularly heavy at that time. Short-term rates should then ease during the second half of the year as Treasury borrowing declines.

In 1985 interest rates are expected to again rise. Accelerating inflation should force the FED to tighten up on the growth of the money supply while Treasury borrowing returns to an annual rate in excess of $200 billion.

Real Estate Markets

After falling in July and August, sales of existing homes rose 1.1 percent in September to a seasonally adjusted annual rate of 2,740,000 units. This remains 6.8 percent below the June level. The September rise was accompanied by a 0.9 percentage point increase in the NAR Affordability Index from 81.5 in August to 82.4. Housing starts fell 13 percent to 1,652,000 units in September while building permits fell 9 percent from the August level.

With 9 months data in and no major changes in mortgage interest rates foreseen, it looks like sales of existing single-family homes for 1983 should be 2,740,000, an increase of about 38 percent over the 1982 level. Rising income and modest declines in mortgage interest rates should enhance affordability in

1984, boosting resales to the 2.9-3.0 million unit level. Affordability index should average 85.5 for 1984, up from 82.1 in 1983. Rising mortgage rates and a much reduced level of economic growth should cause resales to retreat to 2.7 million level in 1985.

Similarly, a total of 1.7 million housing units should be started for all of 1983, an increase of 61 percent over the 1982 level. Starts should increase about 3 percent to 1.75 million units in 1984, with growing inventories of unsold homes restraining the increase in starts somewhat. In 1985 starts are expected to drop 8 percent to 1.6 million units.

The serious affordability problem posed by high interest rates is restraining price increases of existing homes. For all 1983 the median price of existing single-family homes sold should rise just 3.3 percent to $69,900, about equal to the overall rate of inflation for the year. In 1984 the median price of resales should rise a little over 6 percent. However, in 1985 the rate of price increase should fall back to between 5 and 6 percent, somewhat lower than the inflation rate. The median price of new single-family homes sold should rise by 9 percent for all of 1983 and between 8 and 9 percent during 1984, much faster than inflation.

Commercial construction rebounded strongly during the third quarter. Office vacancy rate should peak during the fourth quarter and fall sharply in during 1984 as the vacant space is absorbed in an expanding economy. After an expected decline of 1.3 percent in 1983 the value of new commercial building construction put in place should rise 17 percent in 1984 and 13 percent in 1985. Industrial construction should turn around during the fourth quarter of this year, but the rebound will be relatively modest. After an expected decline of 22 percent for all of 1983 the value of industrial construction put in place should rise 7 percent in 1984 and 12 percent in 1985.

The Relationship Between Federal Deficits and Interest Rates

(adapted from testimony by Dr. Jack Carlson before the Joint Economic Committee October 21, 1983)

Most economists and political leaders realize the damage done by persistently high federal deficits. In his 1983 Economic Report, President Reagan states:

> Federal borrowing competes with private investment for available savings. If the government continues to borrow large amounts to finance its deficit, the real interest rate will remain high and discourage private investment. This process of 'crowding out' will tend to depress private investment in the years ahead unless the budget deficit is progressively reduced.[1/]

[1/] Economic Report of the President, February 1983, p.5.

However, on September 8, in a speech before the Chemical Manufacturers Association, the President's chief economic spokesman, Secretary of the Treasury Donald Regan said that deficits "...cause a lot of problems. It just happens that high interest rates are not one of them." The Secretary went on to imply that "...the banks and other financial institutions..." are to blame for the fact that "...real interest rates...remain unusually high." He concluded that there is no "...good reason--or...excuse--for those rates to be as high as they are."

We were very surprised at the limited basis for Secretary Regan's statement. He was an experienced financial entrepreneur and had complained of the adverse effect of deficits from that vantage point. Nonetheless, he set aside his own past views and based his remarks upon a 22-page report that he described as "... an exhaustive study..." which proved that "...there simply is no empirical evidence that correlates deficits and interest rates."[2/] We thoroughly reviewed this report and found it to be neither exhaustive nor conclusive. In modesty the report concludes that "...economic theory yields only an ambiguous answer to the question whether large Federal deficits cause high interest rates..." Most economists would agree that this is an empirical issue. Yet the sole empirical evidence presented to support the claim that there is no statistically significant relationship between deficits and interest rates is two charts, one plotting over a 30-year period the nominal and real or inflation-adjusted Aaa bond rate against the real federal deficit as a percent of Gross National Product (GNP) while the other plots private borrowing as a percent of GNP against government borrowing as a percent of GNP over the same 30-year period. These charts do not take into account inflation expectations or monetary policy, two very important additional determinants of interest rates. Further, the report fails to recognize studies which have found a significant relationship between deficits and interest rates.

To accurately assess the impact of deficits on interest rates requires a more sophisticated analysis that takes into account all factors which influence the level of interest rates. The equation we have specified is the basic long-term interest rate equation used in large-scale econometric models for nearly 10 years. Contrary to the assertion of the Treasury study, this analysis reveals a statistically significant positive relationship between an increase in privately held federal debt and the Aaa corporate bond rate.

The key to empirically isolating the impact of federal deficits on interest rates is to hold other things constant; that is, account for the other major determinants of interest rates such as monetary policy, private demand for loanable funds, and expected inflation. Based on our own empirical analysis, Table 2 presents a decomposition of the Aaa corporate bond rate over the 12-year period from 1971 to 1983. This decomposition presents the portion of the interest rate which is attributable to the following four fundamental determinants of long-term interest rates:

2/"Government Deficit Spending and its Effects on Prices of Financial Assets," U.S. Department of the Treasury (Washington, D.C.: Government Printing Office, May 1983).

(1) Growth in the Monetary Base Relative to the Growth in the Private Demand for Money

The FED controls the monetary base, which equals currency held by the public plus nonborrowed reserves of the commercial banking system. The FED can increase the monetary base through net purchases of federal debt instruments. Private demand for money increases with the growth of GNP. In general, an increase in the monetary base relative to GNP acts to reduce the interest rate while a decrease in the monetary base relative to GNP acts to increase the interest rate.

(2) Increases in the Stock of Privately Held Federal Debt

Increases in federal debt must be absorbed into the portfolios of private investors and so compete directly with corporate bonds and mortgages. If the increase in federal debt is large relative to the supply of loanable funds, there will be upward pressure on interest rates.

(3) Expected Inflation

An increase in expected inflation will cause the interest rate to rise as investors attempt to protect their funds from the erosion of purchasing power associated with inflation.

(4) Market Expectations

If investors expect interest rates to rise in the future, current interest rates will rise. Conversely, if interest rates are expected to fall, current rates will fall.

From Table 2 we can see that in the early 1970s the increase in privately held federal debt due to federal deficits was absorbed into private portfolios with little if any upward pressure on interest rates. The real rate of interest, which equals all components except expected inflation, was about 4 percent while expected inflation added 3 to 4 percentage points.

Beginning in 1975 the size of the federal deficits increased relative to the pool of savings and private credit demands, creating upward pressure on long-term interest rates. At the same time the economy's demand for money increased relative to the monetary base. By 1978 the real rate rose to around 5 percent while expected inflation was adding 4.5 to 5 percentage points.

Deficits moderated somewhat in the late 1970s, so that the percentage points attributable to the federal debt plateaued at about 0.40. The real rate rose to about 5.25 percent as the demand for money continued to increase relative to the monetary base. By the end of the decade inflation was accelerating, with inflation expectations adding 5 percentage points.

Table 2

Direct Impact of Factors Affecting the Aaa Corporate Bond Rate

Year	Monetary Policy	Federal Debt	Inflation Expectations	Market Expectations	Total Fitted	Total Actual
1970	3.68	.18	2.97	.03	6.86	8.04
1971	3.71	.07	3.19	-.02	6.95	7.39
1972	3.87	.04	3.15	-.01	7.05	7.21
1973	4.09	.06	3.20	.01	7.36	7.44
1974	4.09	.03	4.33	.04	8.49	8.57
1975	4.14	.12	4.76	-.01	9.01	8.83
1976	4.18	.31	4.39	-.12	8.76	8.43
1977	4.40	.37	3.78	-.13	8.42	8.02
1978	4.57	.40	4.00	.02	8.99	8.73
1979	4.83	.43	4.55	.02	9.83	9.63
1980	5.11	.54	6.13	.06	11.84	11.94
1981	5.53	.62	7.68	.09	13.92	14.17
1982	5.36	.77	7.27	-.03	13.37	13.79
83:1	5.17	.94	5.68	-.22	11.57	11.84
83:2	5.18	1.00	5.34	.00	11.52	11.57
Forecast						
83:3	5.25	1.01	5.90	-.03	12.13	--
83:4	5.26	1.03	5.92	.07	12.28	--
84:1	5.28	1.06	5.89	.02	12.25	--
84:2	5.29	1.10	5.90	-.01	12.28	--
84:3	5.31	1.10	5.89	.01	12.31	--
84:4	5.32	1.11	5.91	.00	12.34	--
85:1	5.33	1.15	5.92	.01	12.41	--
85:2	5.36	1.19	5.94	.02	12.51	--
85:3	5.39	1.20	5.96	.02	12.57	--
85:4	5.43	1.21	6.00	.02	12.66	--

Source: NATIONAL ASSOCIATION OF REALTORS®.

As we entered the 1980s, interest rates were pushed up in all directions. Massive federal deficits could not be absorbed without substantial increases in real interest rates. Because of the need to offset the inflationary potential of loose fiscal policy and the sharp increase in oil prices, the FED adopted restrictive growth targets for the major monetary aggregates which substantially reduced the monetary base relative to the demand for money, also boosting real rates. Inflation accelerated well into the double-digit range, with inflation expectations adding nearly 8 percentage points to the Aaa corporate bond rate in 1981.

In late 1982 and through the second quarter of 1983 the FED increased the monetary base relative to the demand for money. However, by the second quarter of 1983 the burden of financing the rapidly growing federal debt was adding 1 full percentage point to the real rate. Thus the real rate remains at just over 6 percent, virtually the same as in 1981. By the second quarter of 1983, a substantial reduction in inflation did result in about a 2 percentage point decline in the nominal rate from its peak in 1981.

It is evident from this analysis why the consensus forecast of financial economists is for interest rates to remain high and perhaps rise somewhat during 1984 and 1985 unless some action is taken to substantially reduce the federal deficit. The rapidly growing federal debt will put increasing pressure on the real rate of interest, particularly as the recovery proceeds and private credit demand increases. The FED appears determined to hold onto the hard won reduction in inflation and so is unlikely to use its policy power to substantially lower the real rate by increasing the monetary base. Even if attempted, it would likely be futile since the more rapid growth of the monetary base would serve to heighten inflation expectations. Finally, with the prospect of a $100 to $150 billion deficit when the economy is at full employment, the so-called structural deficit, the only likely course for inflation expectations is to remain at current levels (6 to 9 percent over the next several years) or even rise slightly, despite the low level of current inflation.

These results also explain why interest rates fell from 1974 to 1977 despite the fact that the federal deficit rose substantially over this period. As seen in Table 2 the primary reason was a steep decline in inflation expectations. In the wake of the recession from November 1973 to February 1975, the annualized percent change in the GNP deflator fell from a peak of 12.1 percent during the fourth quarter of 1974 to 3.6 percent during the first quarter of 1976. Thus, while the sharp increase in federal debt during this period was pushing interest rates up, this effect was more than offset by the decline in inflation expectations. Moreover, during the 1973 to 1977 period, the FED annually purchased on average 12.6 percent of the federal debt issued. In contrast, from 1980 to 1982 the FED purchased just 4.8 percent of the newly issued federal debt. This much more accommodative stance also helped bring interest rates down over the 1974 to 1977 period.

The analysis also suggests that credible steps taken now to reduce the deficit, such as the REALTORS® Three-FOR-ALL Program, could in a very short time reduce long-term interest rates by at least one percentage point and perhaps by as much as 2 to 3 percentage points. Elimination of the structural deficit would likely reduce inflation expectations sufficiently to reduce long-term rates by at least one percentage point in just 6 to 9 months. The reduction in inflation expectations would in turn permit the FED to adopt a slightly more

accommodative stance. Over the long run, long-term rates would continue to edge down as the economy grows and the much slower growing federal debt is absorbed into private portfolios.

Table 3

Likely Impact of THREE-FOR-ALL

Program on Aaa Corporate Bond Rate*

Year	Monetary Policy		Federal Debt		Inflation Expectations		Market Expectations		Total Difference
	Without THREE FOR ALL	With THREE FOR ALL	Without THREE FOR ALL	With THREE FOR ALL	Without THREE FOR ALL	With THREE FOR ALL	Without THREE FOR ALL	With THREE FOR ALL	
83:3	5.25	5.25	1.01	1.01	5.90	5.90	-.03	-.03	0.0
83:4	5.26	5.25	1.03	1.02	5.92	5.42	-.02	-.02	-.61
84:1	5.28	5.20	1.06	1.05	5.89	4.92	.02	-.03	-1.11
84:2	5.29	5.16	1.10	1.04	5.90	4.88	-.01	-.04	-1.24
84:3	5.31	5.12	1.10	1.05	5.89	4.81	.01	-.01	-1.31
84:4	5.32	5.08	1.11	1.05	5.91	4.80	.00	.00	-1.41
85:1	5.33	5.06	1.15	1.04	5.92	4.78	.01	.00	-1.53
85:2	5.36	5.04	1.19	1.03	5.94	4.76	.02	.00	-1.68
85:3	5.39	5.02	1.20	1.02	5.96	4.74	.02	.00	-1.79
85:4	5.43	5.00	1.21	1.01	6.00	4.72	.02	.00	-1.93
86:1	5.44	4.97	1.24	1.00	6.02	4.67	.01	-.01	-2.08
86:2	5.45	4.94	1.26	.98	6.04	4.63	.02	.00	-2.22
86:3	5.46	4.90	1.29	.97	6.06	4.60	.02	-.01	-2.37
86:4	5.47	4.86	1.31	.96	6.08	4.58	.01	-.01	-2.48
87:1	5.48	4.85	1.34	.93	6.10	4.54	.02	.00	-2.62
87:2	5.49	4.84	1.36	.89	6.12	4.52	.01	.00	-2.73
87:3	5.50	4.83	1.38	.84	6.14	4.50	.02	-.01	-2.88
87:4	5.51	4.82	1.40	.78	6.16	4.48	.01	-.01	-3.01
88:1	5.52	4.81	1.42	.70	6.18	4.46	.01	.00	-3.16
88:2	5.53	4.80	1.43	.62	6.20	4.44	.01	-.01	-3.32
88:3	5.54	4.79	1.45	.54	6.22	4.43	.02	.00	-3.47
88:4	5.55	4.78	1.46	.48	6.24	4.41	.01	.00	-3.59

*Table assumes THREE-FOR-ALL Program is implemented for FY84.

Table 4

U.S. ECONOMIC OUTLOOK — NOVEMBER 1983

	QUARTERS							YEARS				
	Actual		Forecast					Actual		Forecast		
	83:2	83:3	83:4	84:1	84:2	84:3	84:4	85:1	1981	1982	1983	1984	1985
AGGREGATE ECONOMY													
Gross National Product ($ billions)	3,272	3,363	3,464	3,559	3,649	3,731	3,809	3,884	2,954	3,073	3,318	3,687	3,997
Percent Change	13.3	11.6	12.5	11.4	10.4	9.3	8.6	8.1	12.2	4.0	8.0	11.1	8.4
Percent Change (without inflation)	9.7	7.9	5.9	5.0	3.9	2.9	2.0	1.9	2.6	-1.9	3.4	5.1	2.1
Consumption	10.0	3.5	4.3	4.5	3.7	2.9	2.2	1.9	2.7	1.4	4.3	4.2	2.2
Durables	32.6	5.7	14.4	9.2	6.7	4.7	2.1	0.7	2.7	-0.9	11.7	9.4	2.0
Nondurables	6.4	5.1	2.3	2.8	2.4	1.8	1.7	1.5	1.9	0.5	3.3	2.9	1.6
Services	6.4	1.4	2.7	4.4	3.8	3.2	2.7	2.5	3.3	2.9	2.8	3.4	2.6
Residential Investment	78.6	36.9	-1.1	4.3	3.9	12.8	3.1	-8.8	-5.2	-15.3	40.0	11.0	-2.6
Nonresidential Investment	8.0	14.7	8.4	7.9	7.7	7.1	6.8	6.7	5.2	-4.7	-0.1	8.6	6.5
Structures	-14.9	11.5	4.5	6.2	6.1	5.9	5.6	5.5	7.5	1.8	-7.0	5.0	4.5
Equipment	19.8	15.9	10.2	8.6	8.4	7.5	7.3	7.2	4.2	-7.5	3.2	10.2	7.1
Exports	-3.2	11.3	5.4	4.5	4.2	4.6	5.4	5.5	0.4	-7.8	-6.3	3.4	5.1
Imports	26.6	25.4	6.6	5.2	6.3	5.0	5.0	4.1	7.3	1.4	6.6	9.1	4.1
Government Purchases	-1.1	5.6	1.2	8.3	4.0	3.3	2.7	0.5	0.8	1.8	0.9	4.2	1.9
Consumption (% of GNP)	66.3	65.6	65.3	65.3	65.2	65.2	65.3	65.3	63.2	65.3	65.8	65.2	65.3
Residential Investment (% of GNP)	3.4	3.7	3.6	3.6	3.6	3.7	3.7	3.8	2.9	2.5	3.4	3.6	3.5
Nonresidential Investment (% of GNP)	10.7	10.9	10.9	11.0	11.1	11.2	11.3	11.5	11.5	11.2	10.8	11.2	11.6
Inventory Change ($ billions)	-14.5	11.8	36.0	31.7	31.4	24.1	16.1	16.6	18.4	-24.6	-1.5	25.8	12.3
Mfg. Capacity Utilization Rate (%)	74	77	80	81	81	81	82	81	79	71	75	81	82
Auto Sales (millions of units)	9.2	9.3	9.9	10.1	10.4	10.7	10.6	10.6	8.5	8.0	9.2	10.5	10.5
Manufacturing Industrial Production (% change)	21.0	21.9	16.6	7.2	3.4	3.5	2.5	1.4	2.4	-8.5	8.1	9.8	2.3
Common Market	-0.9	-5.0	5.7	2.6	3.1	0.4	1.0	3.7	-1.5	-1.7	-0.4	1.7	1.9
Japan	5.8	7.9	6.5	8.9	4.1	2.4	3.5	7.4	1.0	0.4	2.5	6.0	4.9
Employment (millions)	99.9	101.6	102.8	103.8	104.6	105.3	105.9	106.3	100.4	99.5	100.9	104.9	106.9
Unemployment Rate (%)	10.1	9.4	8.8	8.5	8.3	8.2	8.2	8.3	7.6	9.7	9.7	8.3	8.4
Disposable Income per Household (average)	28,526	29,208	30,012	30,822	31,442	32,028	32,624	33,379	25,837	27,206	28,945	31,729	34,257
Percent Change -- Year Ago (w/o inflation)	1.2	2.9	4.1	4.9	4.8	3.7	2.6	2.1	2.2	-0.4	2.3	4.0	1.9
Total Taxes per Household (average)	14,025	14,011	14,407	14,834	15,164	15,493	15,779	15,979	13,187	13,205	13,982	15,318	16,386
Percent Change -- Year Ago	5.8	6.1	8.8	10.0	8.1	10.6	9.5	7.7	11.7	0.1	5.9	9.6	7.0
Percent of Disposable Income	49.2	48.0	48.0	48.1	48.2	48.4	48.4	47.9	51.1	48.5	48.3	48.3	47.8
Household Debt as Percent of Disposable Income	79.1	79.3	79.2	79.1	79.4	79.7	80.2	80.3	78.3	78.1	79.0	79.6	80.8
Consumer Price Inflation (CPI)	4.2	4.8	5.8	6.6	6.8	6.6	6.5	7.7	10.3	6.2	3.3	6.1	7.1
Gross National Product Inflation (GNP Deflator)	3.3	3.4	6.3	6.2	6.3	6.2	6.5	6.1	9.4	6.0	4.3	5.7	6.1
Personal Consumption Inflation	4.6	3.8	5.0	5.9	6.0	6.0	6.0	6.2	8.4	5.8	4.0	5.4	6.0
Residential Construction Inflation	-2.2	5.1	4.6	6.8	8.9	9.3	9.4	8.8	7.0	2.8	2.2	6.5	8.7
Nonresidential Construction Inflation	-0.5	-1.5	3.5	7.0	9.0	8.8	8.5	8.0	11.6	4.7	-0.7	5.3	8.0
Producers Price Inflation (WPI)	1.0	4.2	7.2	6.5	7.1	7.5	7.5	8.2	9.1	2.0	1.5	6.3	7.5
Compensation per Manhour (% change)	4.3	3.7	5.8	10.1	8.9	8.8	8.7	8.5	9.7	7.9	5.7	7.6	8.3
Productivity (% change)	6.0	3.6	2.4	2.7	2.5	2.2	2.0	1.7	1.9	0.0	3.2	2.8	1.8
Unit Labor Cost (% change)	-1.8	0.2	3.2	7.2	6.3	6.5	6.6	6.7	7.7	7.9	2.5	4.7	6.4
Unit Capital Cost (% change)	7.5	6.6	5.9	5.4	5.2	5.0	4.8	4.7	10.7	9.8	7.1	5.1	4.7
Before Tax Corporate Profits ($ billions)<1>	213	234	259	267	272	279	286	295	251	190	222	276	302
Corporate Tax Liability	76	81	93	97	99	102	104	107	83	59	78	100	109
'Windfall Profits' Tax Receipts	10	9	11	11	12	11	11	14	24	16	11	11	14
After Tax Profits	127	144	154	159	162	166	170	175	144	115	134	164	178
Inventory Valuation Adjustment	-11	-15	-18	-20	-23	-26	-28	-31	-24	-8	-11	-25	-30
Capital Consumption Adjustment	26	38	42	43	44	44	44	43	-11	-1	30	44	43
Profits from Current Production (with IVA, CCA)	142	167	178	181	183	184	186	187	110	106	152	183	192
Adjusted for Inflation (82:1 base)	135	157	165	165	164	163	162	160	114	104	143	163	161
Percent Change - Year Ago	29.6	49.5	57.9	43.5	21.7	3.5	-1.9	-3.0	10.3	-8.9	37.7	14.3	-1.5
Per Unit of Output (% of GNP)	4.3	5.0	5.1	5.1	5.0	4.9	4.9	4.8	3.7	3.4	4.6	5.0	4.8
Effective Corporate Tax Rate (%)<1>	35	33	35	35	35	36	36	37	43	37	34	36	37
Federal Tax Receipts (Unified basis)	666	612	592	610	705	693	653	656	620	608	608	685	745
Federal Expenditures (Unified basis)	783	773	843	878	889	849	924	960	698	740	800	885	967
Surplus or Deficit (Unified basis)	-117	-161	-250	-268	-184	-155	-271	-304	-78	-131	-193	-200	-222
% of GNP	3.6	4.8	7.2	7.5	2.8	4.2	7.1	7.8	3.7	4.2	5.8	5.4	5.6
% of Personal Savings	127.6	144.9	191.6	187.4	72.5	108.6	183.6	184.2	83.0	106.1	166.1	138.0	129.2
% of Total Private Savings	21.8	27.5	40.6	42.2	16.1	23.9	40.8	44.0	21.7	25.0	33.7	30.7	31.0

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Dick Peach.

Table 5

REAL ESTATE AND FINANCIAL MARKETS — NOVEMBER 1983

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	83:2	83:3	83:4	84:1	84:2	84:3	84:4	85:1	1981	1982	1983	1984	1985
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,857	2,747	2,757	2,869	2,954	3,047	2,948	2,846	2,419	1,990	2,736	2,954	2,735
Percent Change - Year Ago	46.3	45.1	29.2	11.1	3.4	10.9	6.9	-0.8	-18.6	-17.7	37.5	8.0	-7.4
Dollar Volume (billions)	235.9	231.0	226.6	242.0	253.1	267.6	253.1	250.3	189.4	160.2	225.3	254.0	246.0
Existing Home Prices - Median ($1000's)	69.8	71.2	70.2	72.5	74.0	76.2	74.7	76.7	66.4	67.8	69.9	74.3	78.6
Percent Change - Year Ago	2.5	4.0	4.2	6.0	6.0	6.9	6.5	5.8	6.8	2.1	3.1	6.4	5.8
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	619	663	649	667	667	674	661	694	742	754	641	667	721
Percent of Household Income	22	23	22	22	22	22	21	21	29	28	23	22	22
NAR Affordability Index	82.0	81.8	84.9	84.7	84.6	84.4	88.3	86.2	68.9	69.5	82.1	85.5	85.4
New Single-Family Home Sales (thousands)	655	589	598	633	657	677	658	639	437	417	612	656	602
Percent Change - Year Ago	79.4	44.1	15.4	4.6	0.3	15.0	9.9	1.0	-19.9	-4.4	46.6	7.3	-8.2
New Home Prices - Median ($1000's)	75.0	76.4	77.4	78.9	80.8	82.9	85.0	87.1	68.8	69.3	75.5	81.9	90.0
Percent Change - Year Ago	7.8	9.8	8.1	7.7	7.7	8.5	9.8	10.3	6.4	0.7	9.0	8.5	9.8
New Home Prices--Mean ($1000's, Quality Adjusted)	88.7	90.6	90.5	94.0	94.1	96.4	96.6	100.4	85.5	87.8	89.7	95.3	102.2
Percent Change - Year Ago	-0.1	3.4	5.4	5.6	6.1	6.4	6.7	6.8	8.8	2.8	2.2	6.2	7.2
New Mortgage Commitments ($ billions)	154.0	134.0	143.5	152.7	163.2	175.8	180.9	175.6	60.0	64.8	143.8	168.2	178.3
Percent Change - Year Ago	219.9	134.6	51.9	6.3	6.0	31.3	26.1	15.0	-31.2	8.1	121.8	17.0	6.1
Mortgage Debt Outstanding ($ billions)	1,724	1,766	1,792	1,823	1,863	1,910	1,959	2,007	1,544	1,628	1,741	1,889	2,086
Homeowners' Equity ($ billions)	2,537	2,615	2,679	2,739	2,800	2,871	2,955	3,043	2,345	2,396	2,578	2,841	3,172
Housing Inventory (millions)	91.6	92.0	92.4	92.8	93.1	93.6	94.0	94.4	89.7	90.6	91.8	93.4	94.9
Private Housing Starts (thousands)	1,683	1,788	1,656	1,673	1,765	1,841	1,717	1,597	1,100	1,059	1,705	1,749	1,609
Single-Family	1,104	1,061	1,014	1,049	1,147	1,214	1,137	1,068	713	663	1,064	1,137	1,074
Multi-Family	579	728	642	624	618	627	580	529	386	395	641	612	535
Mobile Home Shipments (thousands)	299	309	302	306	311	320	316	306	240	239	298	313	308
Rental Vacancy Rate (%)	5.5	5.4	5.3	5.3	5.3	5.3	5.3	5.3	5.0	5.3	5.5	5.3	5.4
Unsold New Homes (% of sales)	39.8	46.6	45.3	46.1	46.9	47.5	48.5	50.1	75.4	65.2	43.2	47.2	52.4
Office Vacancy Rate (%)<1>	11.7	11.8	11.9	11.6	11.2	10.6	10.0	10.0	4.3	8.0	11.6	10.8	10.0
Industrial Vacancy Rate (%)<1>	4.9	5.0	5.2	5.1	4.9	4.7	4.6	4.5	3.7	4.4	5.0	4.8	4.5
New Commercial Building Construction (% Ch Value)	-24.3	35.4	26.5	16.4	15.2	18.0	15.9	14.2	14.2	9.0	-1.3	17.2	13.3
New Industrial Building Construction (% Ch Value)	-34.9	-3.0	14.1	14.1	12.0	13.3	14.6	10.4	22.0	2.5	-22.2	7.4	12.1
FINANCIAL MARKETS													
Personal Savings Rate (%)	4.0	4.7	5.4	5.7	5.6	5.5	5.5	6.0	6.6	5.8	4.9	5.6	6.1
Money Supply (M1: % change)(FED Target 5-9%)	12.8	9.3	4.0	6.4	7.0	6.6	4.7	5.7	7.1	6.5	11.0	6.7	5.9
Money Supply (M2: % change)(FED Target 7-10%)	10.5	8.1	6.8	11.4	10.5	9.6	8.1	7.4	9.5	9.4	12.4	9.5	8.4
Total Time and Savings Deposits (% change)	-4.9	7.9	12.3	11.4	11.3	12.4	12.0	9.8	8.8	7.1	-0.9	10.2	11.3
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	13.0	13.7	13.6	13.6	13.3	13.0	13.0	13.3	16.7	16.6	13.5	13.2	13.5
Real Mortgage Rate	9.8	10.3	7.3	7.4	7.0	6.8	6.5	7.2	8.0	12.2	8.9	6.9	7.4
Assumption Rate	10.0	10.1	10.2	10.2	10.2	10.1	10.1	10.2	10.5	10.5	10.1	10.2	10.2
Seller Take Back Mortgage Rate	10.6	10.8	10.9	10.9	10.9	10.8	10.8	10.9	11.8	11.7	10.8	10.9	10.9
Blended Rate	12.3	12.7	12.7	12.6	12.5	12.3	12.3	12.6	14.2	14.4	12.6	12.4	12.7
Corporate Bond Rate (AAA)	11.6	12.3	12.2	12.1	11.9	11.6	11.6	11.9	14.2	13.8	12.0	11.8	12.2
Government Bond Rate	10.1	11.3	11.3	10.9	10.5	10.1	10.4	10.8	14.3	13.0	10.6	10.5	10.9
Real Long-term Government Bond Rate	6.8	7.8	4.9	4.8	4.2	3.9	4.0	4.7	5.6	8.6	6.0	4.2	4.9
Federal Funds Rate	8.8	9.5	9.5	9.3	9.1	8.7	9.1	9.4	16.4	12.3	9.1	9.1	9.7
3 Month Treasury Bills	8.4	9.1	8.9	9.0	8.7	8.4	8.7	9.0	14.0	10.6	8.6	8.7	9.1
1 Year Treasury Bills	9.2	10.3	10.0	10.1	9.8	9.4	9.7	10.0	14.8	12.3	9.6	9.7	10.2
Commercial Paper Rate	8.6	9.3	9.0	9.3	8.9	8.6	9.0	9.4	15.3	11.9	8.8	9.0	9.7
Rate on Money Market Fund Shares	8.7	9.5	9.2	9.3	9.0	8.8	9.1	9.5	15.7	12.1	9.0	9.0	9.8
Prime Rate	10.5	10.8	11.0	10.9	10.8	10.2	10.4	10.7	18.9	14.9	10.8	10.6	11.2

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS,·and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Dick Peach.